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SECURITIES AND EXCHANGE COMMISSION

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WASHINGTON, D. C. 20549

FORM 10-Q

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Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarter Ended: March 27, 1992

Commission File No.: 0-14756

The Cosmetic Center, Inc.
(Exact name of registrant as specified in its charter)

Delaware	52-1266697
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8839 Greenwood Place
Savage, Maryland 20763
(Address of principal executive offices)

(301) 497-6800
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class A Common Stock, par value $.01 per share, outstanding as of April 30, 1992 – 2,651,992 shares

Class B Common Stock, par value $.01 per share, outstanding as of April 30, 1992 – 1,551,992 shares

BEST COPY AVAILABLE

THE COSMETIC CENTER, INC.

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PART I

ITEM 1. Financial Statements

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THE COSMETIC CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

ASSETS	March 27, 1992 (unaudited)	September 27, 1991
CURRENT ASSETS:		
Cash	$ 975	$ 771
Accounts receivable, net	1,302	1,068
Inventories	33,878	42,393
Prepaid expenses	339	228
Prepaid income taxes	363	–
Deferred income tax benefit	106	95
Total current assets	36,963	44,555
PROPERTY AND EQUIPMENT:		
Furniture, fixtures and equipment	4,766	4,346
Leasehold improvements	2,438	2,400
Leased property – capitalized	1,124	1,124
	8,328	7,870
Accumulated depreciation and amortization	4,867	4,316
	3,461	3,554
DEPOSITS AND OTHER ASSETS	73	95
DEFERRED INCOME TAX BENEFIT	383	423
TOTAL ASSETS	$ 40,880	$ 48,627

See notes to consolidated financial statements.

THE COSMETIC CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY	March 27, 1992 (unaudited)	September 27, 1991
CURRENT LIABILITIES:		
Note payable–bank	$ 11,136	$ 14,800
Current portion of obligation under capital leases	145	187
Accounts payable	8,033	13,331
Accrued expenses	3,107	3,006
Income taxes payable	–	127
Total current liabilities	22,421	31,453
OBLIGATION UNDER CAPITAL LEASES	83	146
Total liabilities	22,504	31,599
SHAREHOLDERS' EQUITY:		
Common stock, $.01 per value; authorized 5,000,000 shares; issued and outstanding 3,104,000 shares	–	31
Class A Common stock, $.01 per value; authorized 5,000,000 shares; issued and outstanding 1,551,992 shares	16	–
Class B Common stock, $.01 per value; authorized 5,000,000 shares; issued and outstanding 1,551,992 shares	15	–
Additional paid–in capital	6,963	6,963
Retained earnings	11,382	10,034
Total shareholders' equity	18,376	17,028
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 40,880	$ 48,627

See notes to consolidated financial statements.

THE COSMETIC CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	March 27, 1992	March 29, 1991	March 27, 1992	March 29, 1991
Net sales	$ 21,817	$ 18,194	$ 54,320	$ 45,994
Cost of sales including buying, occupancy and distribution	17,366	14,183	43,190	36,305
Selling, general and administrative expenses	3,971	3,481	8,480	7,231
Total operating expenses	21,337	17,664	51,670	43,536
Income from operations	480	530	2,650	2,458
Other income, net	68	46	103	98
Interest expense	(178)	(272)	(487)	(568)
Earnings before income taxes	370	304	2,266	1,988
Income taxes	150	123	918	805
Net earnings	$ 220	$ 181	$ 1,348	$ 1,183
Net earnings per common share	$ 0.07	$ 0.06	$ 0.43	$ 0.38
Weighted average shares outstanding	3,104,000	3,100,000	3,104,000	3,100,000

See notes to consolidated financial statements.

THE COSMETIC CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(Dollars in thousands)

	Six Months Ended	
	March 27, 1992	March 29, 1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 1,348	$ 1,183
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation and amortization	614	717
Gain on sale of equipment	(15)	–
Change in assets and liabilities:		
Accounts receivable, net	(234)	174
Inventories	8,515	(1,971)
Prepaid expenses	(137)	(12)
Prepaid income taxes	(363)	287
Deferred income tax benefit	29	–
Deposits and other assets	21	82
Accounts payable	(5,298)	(2,318)
Accrued expenses	99	(365)
Income taxes currently payable	(127)	283
Net cash provided (used) by operating activities	4,452	(1,940)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(494)	(525)
Proceeds from sale of equipment	15	–
Net cash used by investing activities	(479)	(525)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) under line-of-credit agreement	(3,664)	3,061
Repayments of long-term debt	–	(62)
Repayments of capital lease obligations	(105)	(168)
Net cash provided (used) by financing activities	(3,769)	2,831
NET INCREASE IN CASH	204	366
CASH AT BEGINNING OF PERIOD	771	745
CASH AT END OF PERIOD	$ 975	$ 1,111
SUPPLEMENTAL INFORMATION:		
Cash payments for interest	$ 520	$ 560
Cash payments for income taxes	1,378	235

See notes to consolidated financial statements.

THE COSMETIC CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED
MARCH 27, 1992 AND MARCH 29, 1991

(Unaudited)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements of The Cosmetic Center, Inc., (the "Company") for the year ended September 27, 1991.

The accompanying consolidated financial statements are unaudited, but include all adjustments (consisting only of normal recurring adjustments) which management considers necessary for a fair presentation at March 27, 1992 and March 29, 1991 and for the three and six month periods then ended. The accounting policies applied in the consolidated financial statements are consistent with the accounting policies applied in the consolidated financial statements of the Company for the year ended September 27, 1991.

The results for the three and six month periods ended March 27, 1992 and March 29, 1991 are not necessarily indicative of results expected for the entire year.

Merchandise Inventories

The Company's inventories, consisting primarily of cosmetic, fragrance, beauty aid, and related items, are valued at the lower of cost or market. Cost is determined using the weighted average cost method.

Rental Expenses

Certain store leases provide for minimum rentals plus additional rentals computed as a percentage of sales in excess of amounts specified in the lease as minimum rentals. The Company accrues percentage rent expense during interim periods based on actual sales in excess of the prorated annual amounts specified in the related lease.

NOTE 2 SUBSEQUENT EVENT

On April 24, 1992, the Company sold 1,100,000 shares of Class A Common Stock pursuant to its public offering. The offering produced net proceeds of $14,322,000 before deducting estimated expenses of $215,000. Pursuant to the underwriting agreement, the underwriters have a thirty day option from April 16, 1992 to buy an additional 165,000 shares of Class A Common Stock at $14.00 per share.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

The Company's working capital was $14,542,000 at March 27, 1992 compared to $13,102,000 at September 27, 1991. The ratio of current assets to current liabilities was 1.6 at March 27, 1992 compared to 1.4 at September 27, 1991.

The Company has an unsecured credit facility (the "Facility") with a bank for maximum borrowing of $15,000,000. The Facility, which expires on January 31, 1993, is subject to repayment on demand and bears interest at an annual rate equal to one-quarter of one percent (1/4 of 1%) below the bank's prime rate, payable monthly. The facility requires compliance with certain restrictive covenants including maintenance of minimum tangible net worth.

At March 27, 1992, the outstanding balance under the Facility was $11,136,000. The $3,664,000 decrease in the Facility and most of the $5,298,000 decrease in accounts payable from September 27, 1991 resulted from the decrease in inventory of $8,515,000 due to seasonality and volume of sales during the first quarter of fiscal year 1992.

The Company's future capital needs primarily result from its plan to open additional new stores. The Company's estimated cost of opening a new store is approximately $705,000, including $550,000 for initial inventory and $155,000 for leasehold improvements, furnishings and fixtures, point-of-sale equipment, and other items. The Company has entered into leases for two additional new stores to be opened in the spring of 1992 and plans to open nine to eighteen stores during the next eighteen months. In addition, the company expects to spend approximately $1,300,000 for the acquisition and installation of an enhanced electronic point-of-sale system in all of its stores, although the Company may choose to lease such system.

On April 24, 1992, the Company sold 1,100,000 shares of Class A Common Stock pursuant to its public offering. The offering produced net proceeds of $14,322,000, before deducting estimated expenses of $215,000. Approximately $11,400,000 of the net proceeds were used to pay the outstanding balance on the Facility. The Company believes that the remaining proceeds of the offering, funds available from the Facility and internally generated funds will provide sufficient capital to meet the company's needs for the foreseeable future.

Results of Operations

Consolidated net sales for the six months ended March 27, 1992 were $54,320,000, an increase of $8,326,000, or 18.1%, from the $45,994,000 in consolidated net sales for the six months ended March 29, 1991. Consolidated net sales for the three months ended March 27, 1992 were $21,817,000, an increase of $3,623,000, or 19.9%, from the $18,194,000 in consolidated net sales for the three months ended March 29, 1991.

Retail sales for the six months ended March 27, 1992 were $51,148,000, an increase of $8,153,000, or 19.0%, from the $42,995,000 in sales for the six months ended March 29, 1991. Comparable store retail sales for the period increased by $5,176,000, or 12.1%. Retail sales for the three months ended March 27, 1992 were $20,479,000, an increase of $3,455,000, or 20.3%, from

the $17,024,000 in sales for the three months ended March 29, 1991. Comparable store retail sales for the period increased by $2,326,000, or 13.7%. The increase in retail sales is attributable to growth in comparable store sales and the opening of three new stores in the first quarter of the fiscal year. The Company operated 37 stores at March 27, 1992 and 34 stores at March 29, 1991.

Wholesale sales for the six months ended March 27, 1992 were $3,172,000, an increase of $173,000, or 5.8%, from the $2,999,000 in sales for the six months ended March 29, 1991. Wholesale sales for the three months ended March 27, 1992 were $1,338,000, an increase of $168,000, or 14.4%, from the $1,170,000 in sales for the three months ended March 29, 1991. The Company is emphasizing improved customer service and value as key elements in its efforts to stabilize wholesale sales. The wholesale division's operations continue to generate operating profits.

Cost of sales, including buying, occupancy and distribution expenses, was $43,190,000 (79.5% of sales) for the six months ended March 27, 1992 versus $36,305,000 (78.9% of sales) for the six months ended March 29, 1991. Cost of sales, including buying, occupancy and distribution expenses, was $17,366,000 (79.6% of sales) for the three months ended March 27, 1992 versus $14,183,000 (78.0% of sales) for the three months ended March 29, 1991. The dollar increase is primarily attributable to cost of sales and occupancy costs associated with new stores opened during the period and increased comparable store sales volume. Cost of sales as a percentage of sales increased slightly as a result of increased sales of promotionally priced merchandise.

Selling, general and administrative expenses were $8,480,000 (15.6% of sales) for the six months ended March 27, 1992 versus $7,231,000 (15.7% of sales) for the six months ended March 29, 1991. Selling, general and administrative expenses were $3,971,000 (18.2% of sales) for the three months ended March 27, 1992 versus $3,481,000 (19.1% of sales) for the three months ended March 29, 1991. The dollar increase is primarily attributable to increased advertising expenditures, expenses associated with the three new stores opened in the first fiscal quarter, general payroll increases and to a lesser extent by expenses associated with five stores that were not in operation for the full period last year.

Interest expense was $487,000 (0.9% of sales) for the six months ended March 27, 1992 versus $568,000 (1.2% of sales) for the six months ended March 29, 1991. Interest expense was $178,000 (0.8% of sales) for the three months ended March 27, 1992 versus $272,000 (1.5% of sales) for the three months ended March 29, 1991. The decrease in interest expense is due to a decrease in interest rates during the six months and a decrease in the average borrowing during the quarter ended March 27, 1992.

PART II

ITEM 2. CHANGES IN SECURITIES

Reference is made to the Company's proxy statement dated February 21, 1992 pursuant to which the terms of the Company's Class A Common Shares and Class B Common Shares have been previously reported.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Stockholders held on March 13, 1992, the stockholders voted on and approved the following proposals:

1) To amend the Company's Certificate of Incorporation to (a) classify the Board of Directors into three classes of directors with staggered terms of office and (b) require an 80% stockholder vote to alter, amend or repeal the foregoing amendment.

AFFIRMATIVE 2,078,970 NEGATIVE 233,523 ABSTAINED 273,804

2) To amend the Company's Certificate of Incorporation to (a) authorize a new class of non-voting Common Shares, designated as Class A Common Shares, (b) increase the number of authorized Common Shares of the Company from 5,000,000 to 10,000,000, consisting of 5,000,000 Class A Common Shares and 5,000,000 Class B Common Shares, (c) establish the terms of the two classes and (d) reclassify each outstanding Common Share of the Company into one-half Class A Common Share and one-half Class B Common Share.

AFFIRMATIVE 2,196,241 NEGATIVE 239,123 ABSTAINED 150,933

3) To amend the Company's 1991 Stock Option Plan.

AFFIRMATIVE 2,364,914 NEGATIVE 112,953 ABSTAINED 108,430

ITEM 6. (A) Exhibits

None

(B) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE COSMETIC CENTER, INC.
(Registrant)

Date: 5-5-92

By _____
BEN S. KOVALSKY
President and Chief Operating Officer

Date: 5-5-92

By _____
BRUCE E. STROHL
Vice President – Finance
and Chief Financial Officer